

# Financing Historic Preservation in Rural Communities

## A Case for Legalized Gaming

*Dakota Territory  
Saloon and Gold  
Strike gift shop;  
1994.*

Many small towns in rural areas of the United States are experiencing long-term economic decline. This phenomena appears to be related to transportation improvements, increased individual mobility, and basic changes in retail marketing. As regional shopping malls and national discount chains have expanded into more rural areas, stores in surrounding communities, unable to compete, have been forced to close their doors. As a result, many rural communities have lost the retail and service businesses and necessary infrastructure required to remain viable and safe communities (Walzer and P'ng, 1994; Walzer, 1990; Caudillo, 1991; Flora, et al., 1991; Stark, 1991; Cole, 1994; Winchell, 1991).

In some cases, declining communities possess historic resources of national importance. As the infrastructure in these towns decays, the nation loses an important part of its heritage, a heritage many consider worth preserving. Communities suffering economic decline are faced with the problem of attracting the capital necessary to finance historic preservation projects.

This paper, employing a case study of Deadwood, South Dakota, documents how one small and economically-stressed community achieved significant historic preservation by



means of legalized gaming. Findings emphasize the importance of local citizen commitment to the successful development and implementation of a major historic preservation strategy. To appreciate the initiative and imagination of Deadwood's citizens, and the importance of historic preservation to this community, it is necessary to know something of Deadwood's significant past.

### *Historical Setting*

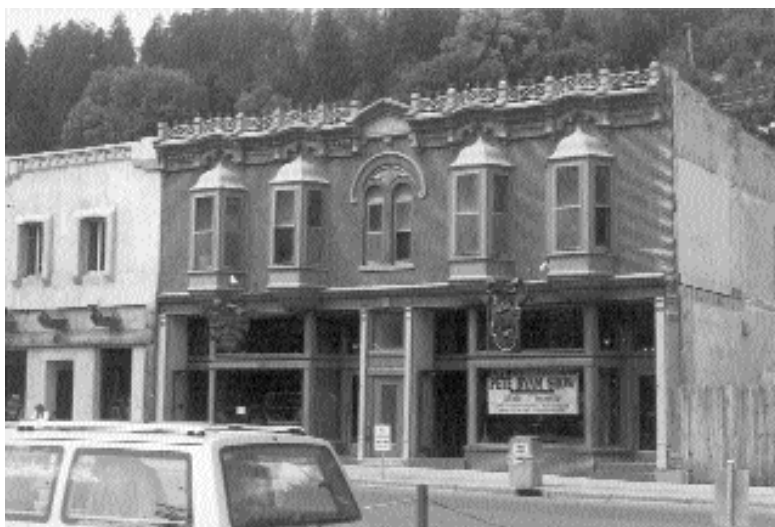
Deadwood has been a National Historic Landmark since 1961, recognized for its representation of the economic and social effects of western mining booms. It is unmistakably a historic place, richly endowed with resources of national importance (South Dakota State Historical Preservation Center, 1990).

The history of Deadwood begins with the discovery of gold in 1874 by the Custer Expedition to the Black Hills. By 1876, prospectors were swarming into Deadwood Gulch and the newly-formed city became known as the wildest and wealthiest gold camp in the West. Deadwood also became a haven for gamblers, gunslingers and prostitutes, among them such legendary figures as Wild Bill Hickok and Calamity Jane (Wood, 1895; Friggins, 1983).

In 1879, a major fire destroyed most of the buildings in the city. With gold providing the financial base to rebuild, the new town, rising phoenix-like from the ashes of the old, was constructed of brick and stone and its Victorian elegance determined the architectural pattern for today's community (Parker, 1981).

From its inception, Deadwood was the business center of the Black Hills mining region, and continued for generations as the legal, mercantile, entertainment, railroad, and financial center of an immense area of the West. Economic decline began with the loss of wholesale business in the late 1930s and early 1940s. As trucking replaced railroads, hills-wide distributing functions were increasingly taken over by firms in the larger and

*Green Door (left)  
and Jackpot  
Charlie's (right). The  
Green Door was a  
saloon and brothel  
in the 1800s-  
1900s. Both build-  
ings were vacant  
prior to the gam-  
bling initiative;  
1994.*



more centrally located Rapid City (Parker, 1981). Then, in the early 1960s, Deadwood began to lose prominence as a retail center, primarily as a result of being by-passed by Interstate 90. The location of a large regional mall in Rapid City, and more recently, the location of K-Mart and Wal-Mart in nearby Spearfish further reduced Deadwood's economic viability.

As wholesale and retail activity declined, Deadwood was supported primarily by tourism. City population dropped from 3,045 in 1960 to 1,830 by 1990 (U.S. Census of Population). As population dwindled and residents shopped increasingly in Rapid City and Spearfish, a number of establishments were forced to close their doors. While tourism provided a living for some, the activity was highly seasonal and did not provide adequate profits to finance major infrastructure improvements.

By the mid-1980s, deferred maintenance was so great that many of the city's historic buildings were in danger of being lost, and The National Trust for Historic Preservation placed the entire city on their list of endangered sites (Mark Wolfe, Interview, 1995). It was estimated in the late 1980s that it would cost \$60 million to do the historic preservation projects to adequately restore the city (Larson, 1995). The director of South Dakota Historical Preservation summed up Deadwood's problems in 1988 as follows:

*In preservation terms Deadwood is a disaster, both for the present condition of its buildings and for the serious financial situation the community faces in terms of dealing with the problem. If Deadwood is to be protected from certain gradual destruction (which would constitute losing the critical element of its tourism base, not to mention the erosion of an important aspect of the nation's heritage), significant expenditures must be made to reverse the ongoing decay. That money will have to come from somewhere.* (Deadwood Presentation to the Special Summer Study Committee, Pierre, 1994).

People in Deadwood were not unaware of this situation. Throughout the 1970s and 1980s concerned local citizens and government officials had been searching for ways to save the historically-significant, but seriously-decaying city. However, traditional attempts to attract new businesses to Deadwood had all failed. Then, in 1986,

a number of citizens formed the "Deadwood U Bet" organization. This group advocated the legalization of limited stakes gaming to generate additional tourist trade and provide a source of funds to protect and restore the city's historic infrastructure (Report on Historic Preservation and Restoration in Deadwood, 1990). This initiative gained momentum in 1987 after a fire destroyed a segment of the historic downtown. Since buildings



in the historic district share common walls, it was fortunate that more of the city was not lost. As a result, citizens of Deadwood and the State of South Dakota were awakened to peril facing the community. Unless something was done to repair Deadwood's inadequate infrastructure, a strong probability existed that they were just one fire away from losing the entire historic district.

The "Deadwood U Bet" group convinced the people of South Dakota that Deadwood was well worth saving. The initiative to allow legalized gambling in Deadwood was based on the assumption that profits would go toward historic preservation. Gaming establishments would pay an annual licensing fee of \$2,000 per gaming device (slot-machine, black-jack table, etc.) plus an 8% tax on profits. To qualify for a gaming license, buildings were to be brought up to code and have approved sprinkling systems to limit the potential of major fires. Gaming for Deadwood was approved statewide on November 8, 1988, by a margin of 64% to 36%. The state legislature added their approval in the spring of 1989, and Deadwood voters approved the measure by a 75% margin in April of 1989. Legalized gaming officially began at high noon on November 1, 1989 (South Dakota Codified Laws Supplement, 1995).

#### *Economic Impact*

Deadwood's decision to use legalized gambling to revitalize and preserve their historic com-

*Midnight Star, a Victorian style building owned by Kevin Costner who retrieved old architectural plans and faithfully restored this former ladies' clothing store; 1994.*

munity was unique. At its inception, no other small community in the United States, especially a National Register Historic Landmark District, had tried such a solution to the problem (Comprehensive Historic Preservation Plan, 1990).

Legalization of gaming had a significantly larger and more immediate impact on the availability of capital for historic preservation than expected. Economists for the State of South Dakota projected that approximately \$2.0 million would be wagered in the first year of operation (South Dakota Commission on Gaming, 1991). In fiscal 1990 (an eight-month year since gaming did not get underway until November 1, 1989), a total of \$145.4 million was wagered in Deadwood. This was 72.7 times greater than economists projected. Within a short period, there were 84 casinos operating in Deadwood, and in spite of substantial competition from gambling in other states,<sup>1</sup> gaming activity in Deadwood has continued to increase (see box).

TOTAL GAMING ACTIVITY AND DISTRIBUTION  
OF TAX REVENUES FY 1990 - FY 1994  
(millions of dollars)

FY	TOTAL \$	DEADWOOD	COUNTY	STATE	TOURISM
1990	145.4	1.850	.071	.224	0.0
1991	330.0	5.048	.227	.968	0.0
1992	389.4	5.123	.298	1.193	0.0
1993	417.9	5.602	.323	1.293	0.0
1994	430.6	5.471	.337	1.347	0.0
1995	488.4	6.172	.363	0.0	1.68

*Source: South Dakota Commission on Gaming*

With the exception of November 1992, every month of every year has shown an increase in total receipts. Total gaming increased from \$145.4 million in FY 1990 to \$488.4 million in FY 1995. From November 1, 1989, through June 30, 1995, gaming activity has generated taxes and fees of \$43.4 million. These monies have been distributed as follows: \$29.2 million to Deadwood for historic preservation; \$5.2 million to the Commission on Gaming for operating expense; \$5.0 million to the State of South Dakota; \$1.7 million to the State Tourism Promotion Fund; \$1.6 million to Lawrence County; and \$.100 million dedicated for historic preservation projects in other parts of South Dakota.

In addition to the tax receipts that have reverted to Deadwood, a substantial private investment has been made in the city to purchase, restore, and furnish historic buildings for use as gaming casinos. Building permits from 1990 through August 1994 total \$26.8 million (City of Deadwood, Department of Planning, Zoning and Historic Preservation). It is estimated that the costs of improvements were underestimated by 70% to 100% at the time building permits were processed (Madden, 1991; Deadwood Casino Owners and Managers Survey, 1994). Given the above parameters, between \$34.8 and \$53.6 million has been spent by the private sector on infrastructure restoration. The combined private/public sector investment in Deadwood from the approval of gaming through 1994 has amounted to between \$64.1 and \$82.8 million.

### *Managing Preservation*

The approval of gaming and ensuing economic boom solved Deadwood's problem of generating sufficient capital to preserve the community's historic resources. Ironically, this solution gave rise to an entirely new problem, that of managing the rapid and extensive renovation so as to avoid destruction of the very resources they had set out to save. Deadwood officials were appropriately concerned with controlling the development boom that accompanied legalized gaming. Their goal was to maximize the dollar receipts for preservation, yet minimize negative impacts on the historic resources of the community. However, renovation got underway before Deadwood was able to hire a building inspector and a preservation planner. As a result, during the renovation frenzy preceding the start of gaming, some permits were approved for inappropriate work and an historic stable was demolished, allegedly by accident. These problems notwithstanding, and given the scale and pace of renovation, preservation in Deadwood has been effectively managed. It is a credit to community residents and members of the city's Historic Preservation Commission that major preservation disasters were avoided.

Three factors have combined to help protect Deadwood's historic resources: (1) Deadwood has existed as a National Historic Landmark since 1961 and members of the community and the city's Historic Preservation Commission have a long history of protecting their historic resources; (2) in 1989 Deadwood voters passed an ordinance which gave the city's historical preservation commission the power to protect historical structures and features in the commercial area of the city; and (3) with a grant from the National Trust for Historic Preservation, Deadwood contracted to have a comprehensive historic preservation plan prepared for the city.

The tax revenues which accrue to Deadwood are held by the City of Deadwood and are administered by the Deadwood Historic Preservation Commission. The overriding goal of this commission has been to provide for the preservation of the built environment and to upgrade the infrastructure to support the historic architectural resources (Comprehensive Historic Preservation Plan). To date, the Historic Preservation Commission has allocated funds to restore public buildings; repair public infrastructure; improve visitor services, parking and transit; provide for adequate city planning and historic preservation supervision; assist the Deadwood Visitors Bureau in marketing programs; fund low-interest loans for restoration of historic commercial and residential properties; fund grants to non-profit organizations to restore historic buildings; provide interpretative materials for historic walking tours and related programs; fund the legal costs of historic preservation projects; and provide professional archeological and engineering studies for private and public projects that would best preserve the historical

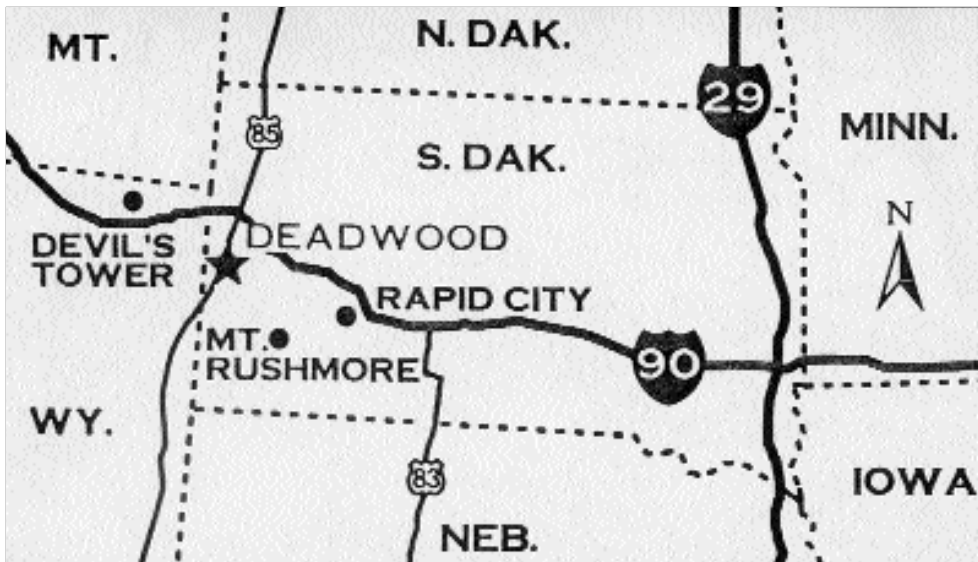
the numbers of visitors to the community. Not all the citizens of Deadwood are comfortable with the changes in their city, however (Comprehensive Historic Preservation Plan, 1990). Residents are unable to shop where they used to, and their lifestyle has been crimped by increased traffic and lack of parking. Still, the majority are proud of the restoration that has taken place and do not want to return to pre-gaming economic problems. Rather, their vision for Deadwood's future involves using the positive aspects of gaming to make the city a better place to live:

*Deadwood should build on the base of tourism in the Black Hills, with the added draw of gaming to bring tourists to Deadwood, but still retain its historic significance. Gaming should be balanced by a positive community experience and future economic diversification* (Comprehensive Historic Preservation Plan, 1991).

It would be difficult to overstate the significance to historical preservation represented by the Deadwood experience. Perhaps not since John D.

Rockefeller began restoration of Williamsburg, Virginia in 1926 has an American community had the resources to preserve history that Deadwood now seems to possess (State Historical Preservation Center, 1990).

A potential problem for Deadwood is the continued economic health of the gaming industry. Although total gaming receipts have increased steadily, gaming establishments, on average, did not show a profit until 1992. From 1992-1994, the average profit was 4.9% and 62% of the casinos reported a profit (South Dakota Commission on Gaming, 1994). Can the gaming industry, with 38% of the casinos



aspects of the area and provide for public safety (unpublished materials, Ardene Rickman, Finance Officer, City of Deadwood).

The careful restoration of Deadwood has greatly improved the historic appeal of the city. Prior to gaming, the downtown district was irregularly maintained. Storefronts were altered to evoke the roaring days of the 1876 gold rush, with weathered pine boards placed over Victorian stone buildings, most of which were historic in their own right. This architectural style, termed by some as "Buckaroo Revival," (Mark Wolfe) gave the city a cheap, tourist-trap appearance.

Gaming dramatically changed economic function. It increased both economic activity and

unprofitable, sustain the substantial economic recovery and historic preservation of this community? The failure of any business in this community should cause concern, since it creates a vacant building. Excessive vacancy will damage the city's upbeat image, and add to the difficulty of protecting the historic infrastructure.

Given that gaming has generated revenues far in excess of projections, perhaps it is time to reevaluate the tax structure. A healthy industry, operating over the long term, keeping all buildings occupied and thus maintaining the historic infrastructure, will provide a steady flow of revenue to the city, county, and state. This should be the goal of all involved.

### Summary

Legalized gaming has had an immediate, substantial, and lasting impact on the historic preservation and economic viability of Deadwood. From the approval of gaming in 1989, through June of 1995, combined public and private investment in this community of approximately 2,000 persons has totaled between \$64.1 and \$82.8 million. The investment in Deadwood was much larger and occurred much faster than anticipated. Infrastructure improvements and historic restoration projects projected to take 40 years were completed in only 5 years. Restoration has proceeded with care and sensitivity under the watchful eye of the city's Historic Preservation Commission. Today, most of the historic downtown has been restored to its previous Victorian elegance, a number of important public buildings have been restored, and substantial new projects are underway which will further enhance the historic ambiance of the city. Restored buildings have been brought up to code. Moreover, a new community water system has been installed, greatly reducing the threat of a devastating fire.

The Deadwood experience demonstrates that small rural communities can achieve phenomenal success when combining citizen initiative and imagination with government cooperation to accomplish preservation goals. Deadwood enjoys a unique situation. The city is located in the scenic Black Hills, close to Mount Rushmore. It has an exciting history of gold, outlaws, and gunfighters, which it combines with legalized gaming. This combination provides a solid base for continued economic success.

### Notes

- <sup>1</sup> In 1989, only Nevada and Atlantic City allowed casino gambling. By 1994, 10 states allowed casino gaming, 25 others had tribal gambling, and approximately two dozen casino riverboats were active on the Mississippi River and the Gulf Coast. It has been estimated that 70% of the U.S. population currently lives within 300 miles of a casino (Shapiro, 1994; Worsnop, 1990).

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Photos by the author.